BUSINESS PLANNING: DRIVING OR PREVENTING ENTREPRENEURIAL ACTIVITY? (SUMMARY)

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**Recommended Citation**

Kleinknecht, Sven and Klandt, Heinz (2011) "BUSINESS PLANNING: DRIVING OR PREVENTING ENTREPRENEURIAL ACTIVITY? (SUMMARY)," *Frontiers of Entrepreneurship Research: Vol. 31 : Iss. 21 , Article 2.*

Available at: [https://digitalknowledge.babson.edu/fer/vol31/iss21/2](https://digitalknowledge.babson.edu/fer/vol31/iss21/2)

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BUSINESS PLANNING: DRIVING OR PREVENTING
ENTREPRENEURIAL ACTIVITY?

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Principal Topic
The field of entrepreneurship, especially in teaching (Honig, 2004), has strongly emphasized the importance of business planning, despite limited empirical evidence for its usefulness with respect to new venture performance (Gruber, 2007). Apart from the performance perspective, one can look at business planning as a gate-keeper for nascent entrepreneurs. Writing a business plan can trigger nascent entrepreneurs to fundamentally reconsider their intentions. We hypothesize that business planning reduces entrepreneurial activity, by (i) ensuring rationality in planning a new venture, (ii) acting as a self-selection mechanism for unsuitable or less than serious entrepreneurs, and (iii) constituting a signal of emerging entrepreneurial activity provoking external pressures against founding.

Method
Analysis of how certain activities influence nascent entrepreneur to quit pursuing their goal is complicated by the time dependent nature of this process. Data from the PSED II is used, as it incorporates five waves of telephone interviews with nascent entrepreneurs spread over several years. This allows us to integrate time information into our analysis, while at the same time reducing survival and hindsight bias. Not every nascent entrepreneur quits during the observation, or starts writing a business plan, so that we need to account for time dependent influences and censoring. For these reasons we decided to use survival analysis. In addition to disengaging from the business and business plan writing, we included control variables for age, gender, relationship status, education, income, and experience.

Results and Implications
Results from our analysis show that engaging in business planning increases the hazard of abandoning the planned venture for certain types of nascent entrepreneurs. Intuitively this paints a negative picture of business planning. But in fact, we believe that it underlines the importance of business plans, and even more importantly the process of planning a business. The effect on entrepreneurial activity might be negative, but this outcome is only detrimental if one wants to maximize entrepreneurship regardless of its performance. Business planning might be a tool which encourages a healthy self-selection process that enables nascent entrepreneurs to screen-out unfeasible business ideas before putting them to the test in real-life, consequently reducing personal and societal costs attached to failure.

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